Corporate Governance in Asia:

A Progress Report

Analysis from "CG Watch 2003", a joint report by CLSA and ACGA.

Presentation by:
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to the
Korea Corporate Governance Service (KCGS)
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Scope/Methodology

- 10 countries (all major markets except Japan).
- 380 listed companies (covered by CLSA).
- Survey of 57 questions. ACGA reviewed.
- Topics: discipline; transparency; independence; accountability; responsibility; fairness; social awareness.
- Each country done by CLSA analysts in that market. ACGA discussed macro trends (but <u>not</u> company scores) with them.
- Central CLSA editor in Hong Kong. ACGA reviewed entire report and wrote a chapter, “Time to Organise”.

Topics

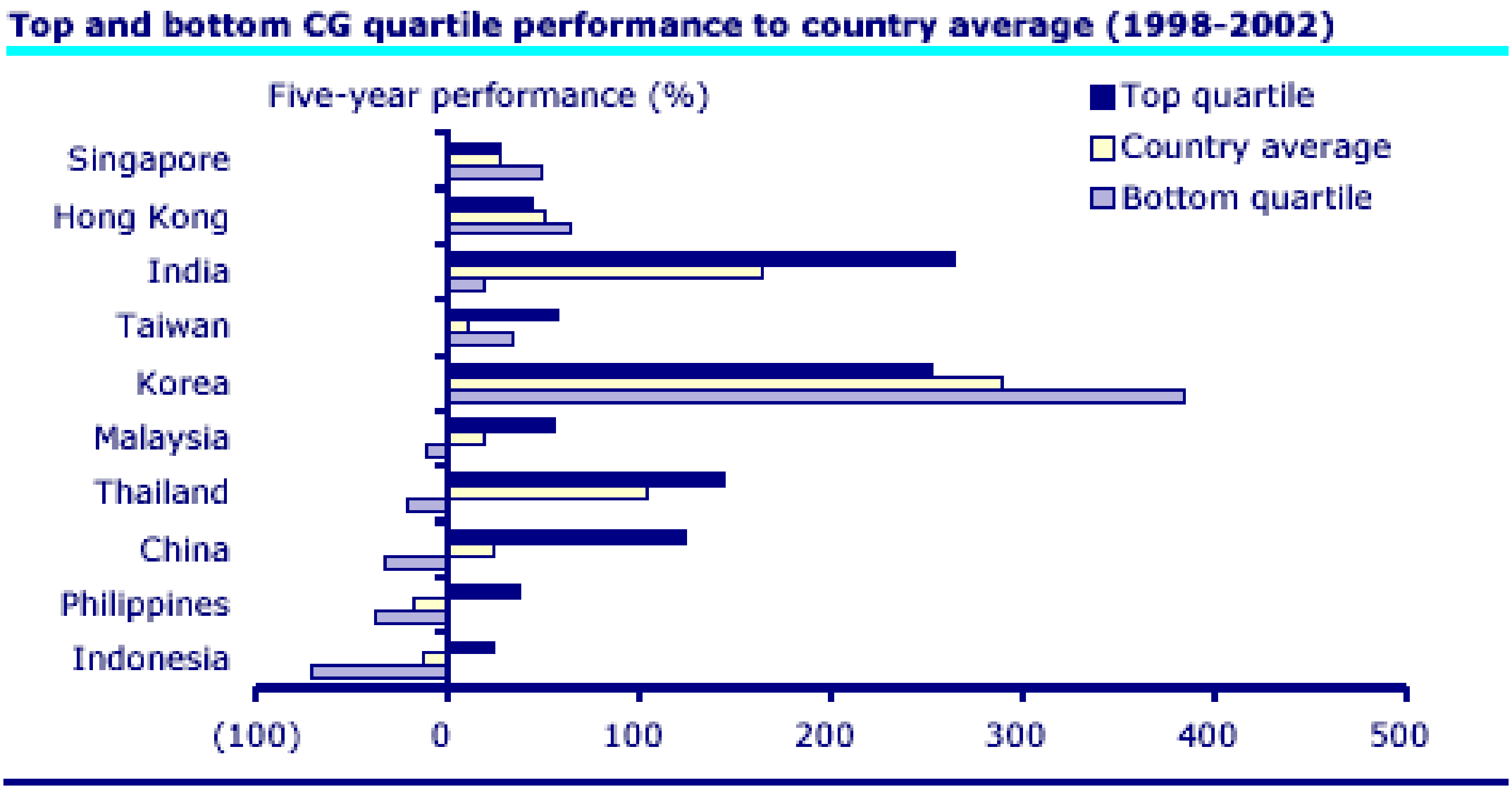
1. CG & stock price performance
2. Company CG scores
3. Country CG scores

CG & stock price performance – 5 yrs

High CG stocks outperform:

- Over past five years, stocks in the top quartile *outperformed* their markets by an average of 35 percentage points.
- Those in the bottom quartile *underperformed* by an average of 25 ppts.
- Relationship is clearest in markets with poor corporate governance.

Five-year performance (1998-2002)



Source: CLSA “CG Watch 2003”.

Why?

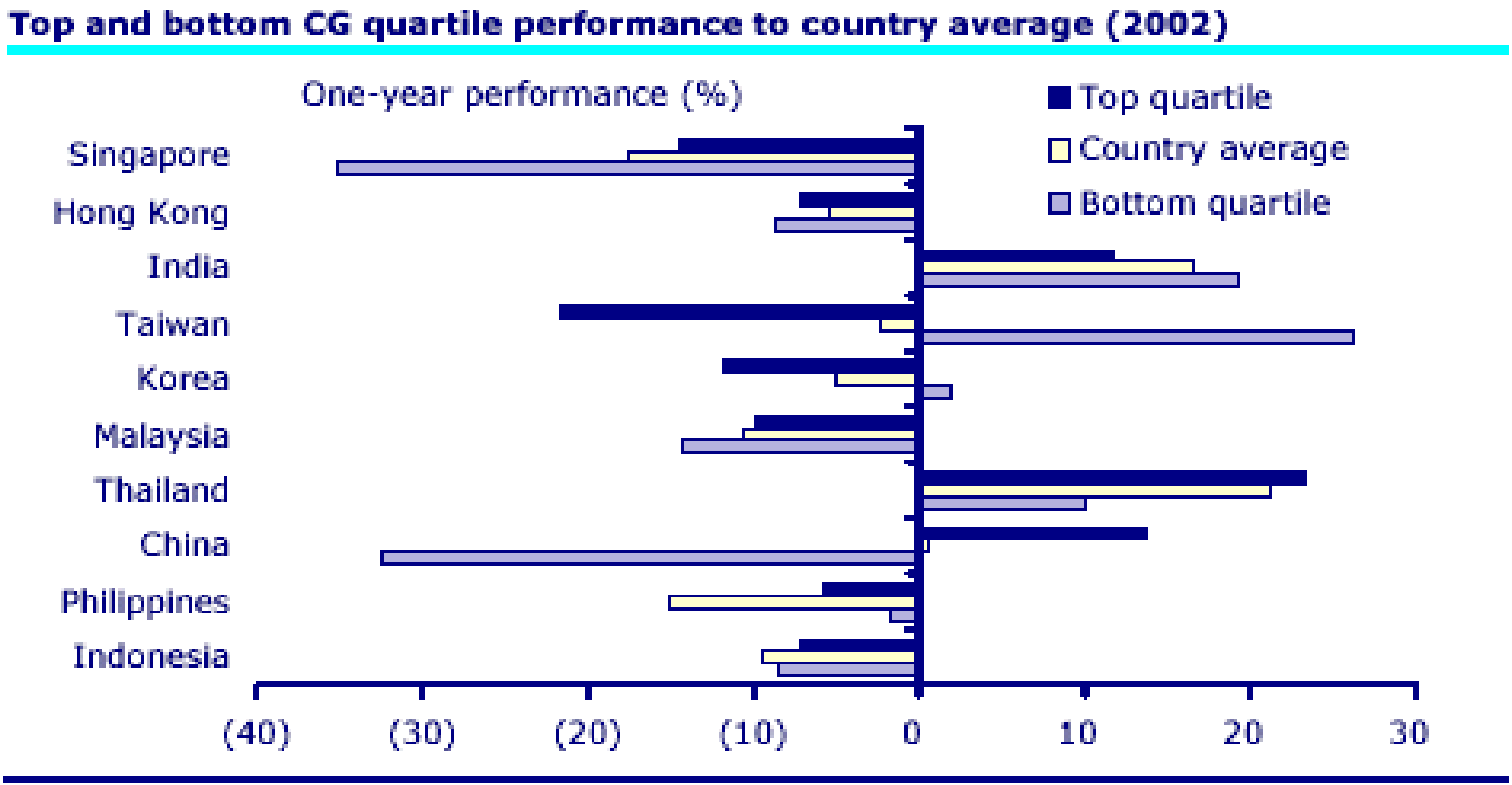
- CLSA found that in larger markets, where big caps tend not to throw up big governance surprises to institutional investors, sectoral factors can override CG correlations on stock performance.

CG & stock price performance – 1 yr

High CG stocks outperform:

- Over one year, stocks in the top quartile *outperformed* their markets in 6 out of 10 countries.
- In 3 out of 10 countries, stocks in the bottom quartile *outperformed*!

One-year performance (2002)



Source: CLSA "CG Watch 2003".

Why?

- CLSA found that sectoral factors were key to driving performance in countries where the top quartile did not outperform (eg, the tech sector in India, Korea and Taiwan).

Company CG scores

- Overall improvement in average company score (of all 380 companies) of four percentage points: from 58% to 62%.
- Big improvements in individual scores in China, Indonesia, Korea and Taiwan.
- Also progress, though less dramatic, in Hong Kong, India, Malaysia, Singapore.
- Best are getting better. Some low scorers have jumped up the rankings.

But no room for complacency

- Biggest increase in average score was in the "discipline" category—one of the easiest.
- Scores for "independence", "accountability" and "responsibility" were below the average.
- Range of scores still extremely wide.
- Some companies, even in top two quartiles, went backwards (eg, in the Philippines).
- CLSA covers only the better firms in Asia. If the best are like this, what of the rest?

Wide range of company scores

- From worst to best company, a 75.5 ppt range: 17.4% to 92.9%
- Top 10 companies: 89% average (rounded)
- Bottom 10 companies: 29% average (rounded)

Company scores (%) by country

Country	Worst	Best	Average
China	36.7	78.2	57.4
Hong Kong	49.9	86.3	65.9
India	48.2	91.4	64.8
Indonesia	17.4	77.5	43.0
Korea	48.6	92.9	70.8
Malaysia	28.7	87.5	65
Philippines	28	52	39.8
Singapore	32.4	80.5	69.5
Taiwan	42.2	90.4	58.7
Thailand	43.8	82	60.2

Country CG scores

- Countries are rated on five criteria:
  - Rules & regulations (10% weighting)
  - Enforcement (30%)
  - Political/regulatory environment (20%)
  - Adoption of IGAAP (20%)
  - Institutional mechanisms and CG culture (20%)

- Most country ratings are improving gradually.

Country trends: positive

- Biggest improvers are middle-ranking countries: India, Korea, Malaysia and Thailand.
- Top-ranking markets (Hong Kong and Singapore) are improving slightly.
- Bottom-ranked market (Indonesia) also improved slightly.
- Innovative regulatory ideas coming from middle-ranking countries (eg, Thailand).

Country trends: negative

- Rating for some countries declined in certain areas (eg, Hong Kong and Indonesia both lost ground in the political/regulatory category).
- Gap between rules and enforcement still large
- Political commitment to good corporate and public governance wavers. Weak economic and regulatory institutions.
- “CG culture” still nascent. Investor activism is growing, but remains limited (especially among institutional investors).

Country scores

Markets ranked by CG

	Rules & regulations	Enforcement	Political/ regulatory environment	Adoption of IGAAP	Institutional mechanisms & CG culture	Country score
Singapore	8.5	7.5	6.0	9.0	8.0	7.7
Hong Kong	8.0	6.5	6.5	9.0	7.0	7.3
India	8.0	6.0	6.0	7.5	6.5	6.6
Taiwan	7.0	5.0	5.0	7.0	6.0	5.8
Korea	7.0	3.5	5.0	7.0	6.5	5.5
Malaysia	9.0	3.5	4.0	7.0	6.5	5.5
Thailand	7.5	3.0	4.0	6.0	4.5	4.6
China	5.0	4.0	5.0	5.0	3.0	4.3
Philippines	6.5	2.0	2.0	6.0	4.0	3.7
Indonesia	4.5	1.5	4.0	5.0	2.5	3.2

Source: CLSA "CG Watch 2003"
(with input from ACGA).

Conclusions

- High CG stocks outperform more clearly over medium rather than short term.
- Correlation is most evident in markets with poor corporate governance.
- Company & country average scores rising, but still a wide range in CG quality across Asia.
- Institutional basis for governance remains weak in many countries.

ACGA Website

Go to

www.acga-asia.org

to keep track of corporate governance developments in Asia, ACGA activities, and governance events.

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